County of Los Angeles
DEPARTMENT OF PUBLIC SOCIAL SERVICES
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dpss

BRYCE YOKOMIZO
Director

May 24, 2004

TO: Each Supervisor

FROM: Bryce Yokomizo, Director

SUBJECT: FOOD STAMP PENALTY SETTLEMENT

I am pleased to notify you that the State has reached a favorable settlement agreement with the United States Department of Agriculture (USDA) regarding California's food stamp error rate penalties for FFY 2000, 2001, and 2002. This agreement was made possible by the dramatic reduction in the food stamp error rate in Los Angeles County, which drove an unprecedented reduction in the statewide error rate. Details of the agreement are in the attached settlement document.

Prior to the settlement agreement, the State faced a combined liability of $185.4 million for FFY 2000, 2001 and 2002. Los Angeles County's share of this liability was $143.1 million. Under the terms of the settlement, the County is not required to make any payment at this time. The County's only potential liability under the settlement agreement involves $62.5 million from the FFY 2001 and 2002 penalty amounts which is held at-risk statewide in relation to the State's food stamp error rate in FFY 2003-2007.

These are the key provisions of the settlement agreement:

- USDA has waived the $10.4 million of the State's FFY 2000 penalty, which was held at-risk in relation to the State's FFY 2003 performance.

- For the FFY 2001 and 2002 penalties, USDA will withhold $12.2 million that would have otherwise been paid to California. This $12.2 million consists of a food stamp performance bonus earned by California in FFY 2003 and an amount owed to California for an accounting adjustment regarding the California Food Assistance Program.

- Out of the initial $175 million penalty for FFY 2001 and 2002, a total of $62.5 million is held at-risk: $12.5 million/year from FFY 2003-2007.
  - If the State's error rate is below 7.4% in a given year, the $12.5 million at-risk for that year is forgiven.
  - If the State's error rate exceeds 7.4%, the State may have an obligation to reinvest in the food stamp program some or all of the $12.5 million at-risk for that year, depending on the amount by which the State's error rate exceeds 7.4% and the State's performance two years later.
  - If the State is ultimately required to reinvest any portion of this at-risk amount, it is uncertain whether the State would seek to require the County to pay any portion of the reinvestment amount.
- The State must continue to spend an estimated $2 million/year for 5 years on activities to enhance the food stamp program. The federal government will match these state funds at the standard rate.

The key factor in making this settlement agreement possible was the unprecedented reduction in the State's error rate from 17.4% in FFY 2001 and 14.4% in FFY 2002 to a preliminary figure of 6.5% in FFY 2003. This reduction in the statewide error rate was primarily attributable to the reduction in Los Angeles County's error rate from 22.9% in FFY 2001 and 18.8% in FFY 2002 to a preliminary figure of 7.1% in FFY 2003.

This settlement agreement represents a major achievement for the State and the County, and is a testament to the consistent support provided by your Board, the CAO and County Counsel and to the tireless work of our staff in reducing our error rate. We remain committed to keeping our food stamp error rate low in the future.

BY:cl

Attachment

c: Chief Administrative Officer
County Counsel

MAY 13 2004

Mr. Bruce Wagstaff
Deputy Director
Welfare to Work Division
California Department of Social Services
744 P Street, MS 17-08
Sacramento, California 95814

Dear Mr. Wagstaff:

This is to acknowledge that we have reached agreement with your office on settling California's outstanding quality control (QC) liabilities for fiscal year (FY) FY 2000, FY 2001 and FY 2002. A document outlining the principles of the agreement is attached. We are currently working with our Office of General Counsel to draft a formal settlement agreement.

Under Secretary Eric Bost and I want to personally thank you and your staff for your hard work in making this agreement possible. We believe that this agreement is of mutual benefit as it ensures a high level of integrity in the Food Stamp Program in California for years to come.

Sincerely,

Jessica Shahin

Jessica Shahin
Acting Deputy Administrator
Food Stamp Program

Attachment

Settlement Outline
For California's Outstanding Food Stamp QC Liabilities

	Amount Affected
1. CA's FY 2000 at risk liability ($10.4 million) is waived based on FY 2003 performance.	$10.4 million
2. CA's uses performance bonus ($6.8 million) and CFAP adjustment ($5.3 million) as a cash payment.	$12.1 million
3. FNS further adjusts total by $10 million (equivalent to the approximate State share) in recognition for activities already undertaken by CA to lower the error rate. FNS will adjust this figure if CA provides data to support a higher amount	$10 million
4. California will continue its current efforts (e.g. Los Angeles County Change Center and Quality Assurance Reviews, etc.) and identify other program improvement initiatives that it deems necessary to improve food stamp payment accuracy, beyond regular administrative activities.[1] The estimated total expenditure is $4 million annually – subject to revision based on State data. FNS will pay one-half of this amount using regular reimbursement procedures.	$10 million (est. State share)
5. CA will place at risk $12.5 million in each fiscal year beginning with FFY 2003 and ending with FFY 2007 for necessary reinvestment activities. The amount of actual reinvestment will depend on whether the State is successful in meeting the agreed-upon at risk reinvestment target (7.4 percent). See attached for specific reinvestment schedule.	$62.5 million
6. The remaining amount (including any interest charges that may have accrued) will be adjusted to $0 in recognition of CA's error rate improvement.	approx. $80 million
7. CA will commit to carrying out all FNS management evaluation requirements.	n/a

[1] Program improvement initiatives include, but are not necessarily limited to:

- Conducting quality assurance (QA)/supervisory reviews;
- Using the QA review reporting system; and
- Conducting an annual conference for all counties covering policy, integrity, and access issues related to the Food Stamp Program.

CA may substitute for the activities listed above through negotiation and prior FNS approval.

No. 5 Reinvestment and At-Risk Schedule for California's Outstanding Food Stamp QC Liabilities

Fiscal Year	Scenario and Required Activity
FY 2003	For FY 2003, if the error rate is • Less than or equal to 7.4% →CA does not need to reinvest nor place money at risk in FY 2005 (receives $12.5 million credit) • Greater than 7.4% but less than or equal to 8.4% → CA reinvests $1 million in FY 2005 and places $1 million at risk for FY 2005 (receives $10.5 million credit) • Greater than 8.4% but less than or equal to 9.4% → CA reinvests $2 million in FY 2005 and places $3 million at risk for FY 2005 (receives $7.5 million credit) • Greater than 9.4% but less than or equal to 10.4% →CA reinvests $3 million in FY 2005 and places $9.5 million at risk for FY 2005 (receives no credit) • Greater than 10.4% → CA reinvests $8.5 million and places $4 million at risk for FY 2005 (receives no credit) • *All the above proportions will be increased for FY 2003 and all the out-years by the extent to which the national average exceeds 7.4%; e.g. if the national average increases to 7.9% then all the above percentages would be increased by 0.5% (i.e., by the same percentage points). So if CA had an 8.6% error rate, it would reinvest $1 million and place $1 million at risk for 2005.* • *The target for all amounts placed at-risk is 105% of the National average error rate two years after the at risk penalty is incurred. If an at risk target is missed, CA must reinvest all of the amounts placed at risk within two years after the error rates for the target year are announced.* • *If the CA error rate exceeds 10.4% (or a higher rate if the national average exceeds 7%) for 3 consecutive years, then the entire amount of $12.5 million will be reinvested.* • *Performance levels and/or penalties may be adjusted through negotiation with FNS if, in accordance with the guidelines specified in Section 16(c)(9) of the Food Stamp Act, CA is able to show to FNS's satisfaction the negative effect that the occurrence(s) had on the QC error rate.*

Fiscal Year	Scenario and Required Activity (continued)
FY 2004	For FY 2004, if the error rate is • Less than or equal to 7.4% → CA does not need to reinvest nor place money at risk in FY 2006 (receives $12.5 million credit) • Greater than 7.4% but less than or equal to 8.4% → CA reinvests $1 million in FY 2006 and places $1 million at risk for FY 2006 (receives $10.5 million credit) • Greater than 8.4% but less than or equal to 9.4% → CA reinvests $2 million in FY 2006 and places $3 million at risk for FY 2006 (receives $7.5 million credit) • Greater than 9.4% but less than or equal to 10.4% → CA reinvests $3 million in FY 2006 and places $9.5 million at risk for FY 2006 (receives no credit) • Greater than 10.4% → CA reinvests $8.5 million and places $4 million at risk for FY 2006 (receives no credit)
FY 2005	For FY 2005, if the error rate is • Less than or equal to 7.4% → CA does not need to reinvest nor place money at risk in FY 2007 (receives $12.5 million credit) • Greater than 7.4% but less than or equal to 8.4% → CA reinvests $1 million in FY 2007 and places $1 million at risk for FY 2007 (receives $10.5 million credit) • Greater than 8.4% but less than or equal to 9.4% → CA reinvests $2 million in FY 2007 and places $3 million at risk for FY 2007 (receives $7.5 million credit) • Greater than 9.4% but less than or equal to 10.4% → CA reinvests $3 million in FY 2007 and places $9.5 million at risk for FY 2007 (receives no credit) • Greater than 10.4% → CA reinvests $8.5 million and places $4 million at risk for FY 2007 (receives no credit) • *If CA's error rate is above 10.4% for FY 2003, FY 2004 and FY 2005, CA must reinvest $12.5 million in lieu of the instructions specified above.*

Fiscal Year	Scenario and Required Activity (continued)
FY 2006	For FY 2006, if the error rate is • Less than or equal to 7.4% →CA does not need to reinvest nor place money at risk in FY 2008 (receives $12.5 million credit) • Greater than 7.4% but less than or equal to 8.4% → CA reinvests $1 million in FY 2008 and places $1 million at risk for FY 2008 (receives $10.5 million credit) • Greater than 8.4% but less than or equal to 9.4% → CA reinvests $2 million in FY 2008 and places $3 million at risk for FY 2008 (receives $7.5 million credit) • Greater than 9.4% but less than or equal to 10.4% →CA reinvests $3 million in FY 2008 and places $9.5 million at risk for FY 2008 (receives no credit) • Greater than 10.4% → CA reinvests $8.5 million and places $4 million at risk for FY 2008 (receives no credit) • *If CA's error rate is above 10.4% for FY 2004, FY 2005 and FY 2006, CA must reinvest $12.5 million in lieu of the instructions specified above.*
FY 2007	For FY 2007, if the error rate is • Less than or equal to 7.4% →CA does not need to reinvest nor place money at risk in FY 2009 (receives $12.5 million credit) • Greater than 7.4% but less than or equal to 8.4% → CA reinvests $1 million in FY 2009 and places $1 million at risk for FY 2009 (receives $10.5 million credit) • Greater than 8.4% but less than or equal to 9.4% → CA reinvests $2 million in FY 2009 and places $3 million at risk for FY 2009 (receives $7.5 million credit) • Greater than 9.4% but less than or equal to 10.4% →CA reinvests $3 million in FY 2009 and places $9.5 million at risk for FY 2009 (receives no credit) • Greater than 10.4% → CA reinvests $8.5 million and places $4 million at risk for FY 2009 (receives no credit) • *If CA's error rate is above 10.4% for FY 2005, FY 2006 and FY 2007, CA must reinvest $12.5 million in lieu of the instructions specified above.*
Total Amount of Funds Involved in this Aspect of the Proposal: $62.5 million.	